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BEFORE THE DEPARTMENT OF COMMERCE AND INSURANCE  
FOR THE STATE OF TENNESSEE

JUL 06 2004

Dept. Of Commerce & Insurance  
Company Examinations

IN THE MATTER OF:

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No.: 04-058

PREFERRED AUTO INSURANCE COMPANY, INC.

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ORDER ADOPTING EXAMINATION REPORT WITH DIRECTIVES

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Pursuant to Tenn. Code Ann. § 56-1-401, *et seq.*, the Insurance Division of the State of Tennessee Department of Commerce and Insurance (hereinafter referred to as the "Division") has examined certain affairs of Preferred Auto Insurance Company, Inc. (hereinafter also referred to as the "Company"), an insurance company domiciled in the State of Tennessee. As a result of an examination conducted as of the 31<sup>st</sup> day of December, 2002, the examiner-in-charge filed with the Division, on the 6th day of May, 2004, a verified, written report on examination, and a copy of that report has been sent to Preferred Auto Insurance Company, Inc. (The Report on Examination of Preferred Auto Insurance Company, Inc., is attached hereto and marked as Exhibit A). The Division received written rebuttal to said examination report on June 14, 2004 (The written rebuttal is attached hereto and marked as Exhibit B).

Pursuant to Tenn. Code Ann. § 56-1-411, said examination report regarding the affairs of Preferred Auto Insurance Company, Inc., filed with the Insurance Division of the State of Tennessee Department of Commerce and Insurance on the 6th day of May, 2004, is hereby **ADOPTED** as filed with the following **DIRECTIVES**:

1. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-11-206 by filing all applicable transactions at least thirty (30) days prior to their entry. Should any such transactions previously entered into not have received approval, the Company is further **ORDERED** to file all such transactions with the Department for its review and approval.
2. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-2-115 by maintaining bona fide surplus funds in the amount of One Million Dollars (\$1,000,000).
3. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-1-501(g) by preparing its financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual.

The company shall comply with the directives contained in this order within thirty (30) days of its entry.

The adoption of this examination report shall not preclude the Department from imposing sanctions against Preferred Auto Insurance Company, Inc. for potential violations of the Tennessee Insurance Law which may be revealed in the examination report, it being the intent of this Order Adopting Examination Report With Directives merely to adopt the examination report filed by the examiner-in-charge.

It is so **ORDERED**.

ENTERED this the 30th day of June, 2004.

Paula A. Flowers

Paula A. Flowers, Commissioner  
Department of Commerce and Insurance  
State of Tennessee

**PREPARED FOR ENTRY:**

Eric J. Stansell

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**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a true and correct copy of the foregoing Order Adopting Examination Report as Filed has been messenger mailed to Larry C. Knight, Jr., Assistant Commissioner for Insurance, Department of Commerce and Insurance, and Don Spann, Chief Examiner, Department of Commerce and Insurance, and mailed, first class, postage prepaid, to Preferred Auto Insurance Company, Inc., 216 South Cooper Street, Memphis, Tennessee 38104; on this the 6th day of July, 2004.

Eric J. Stansell

Eric J. Stansell  
Certifying Attorney